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STATE OF THE CONVENIENCE STORE INDUSTRY

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NATIONAL ASSOCIATION
OF CONVENIENCE STORES

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Foreword

The National Association of Convenience Stores has been working for more than 27 years to provide the best education and training assistance and research and information services. As the convenience store industry's national representative, we're proud to feature this timely report in your Association's list of publications. We feel this report represents a significant contribution to our goal of improving the data base for managerial decision-making.

NACS wishes to thank Arthur Andersen & Co., a recognized authority in the field of retail food surveys, for conducting, compiling and reporting this survey; and Gerke Economics, Inc., for work on data analysis and report writing.

Stephen G. Sheetz
Sheetz, Inc.
Vice-Chairman,
Executive Committee for Education and Training

State of the Industry 1988
Price: NACS Members - $20.00
Non-members - $50.00

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Highlights

Industry Totals

	1986	1987
Stores	64 Thousand	67.5 Thousand
Total Sales	$53.9 Billion	$59.6 Billion
Gas Sales	$17.9 Billion	$20.5 Billion
Non-Gas Sales	$36.0 Billion	$39.1 Billion
Profits Before Taxes	$1,400 Million	$1,312 Million
Number of Employees	485 Thousand	500 Thousand

Industry Trends
(Change from previous year)

Stores	+4.6%	+5.4%
Sales	+4.9%	+10.6%
Profits	+0.9%	-6.3%

Industry Averages

Sales Per Store Non-Gas	$564,000	$579,000
Sales Per Store Gas	$467,000	$509,000
Investment Required for New Urban Store	$668,600	$682,800
Sales Per Customer	$1.98	$2.03
Gross Profit Margin Non-Gas	35.5%	35.9%
Gross Profit Margin Gas	11.2%	10.6%
Gross Profit Margin Combined	25.1%	24.4%
Profit Before Taxes	2.6%	2.2%
Convenience Store Inflation Rate	(.1)%	2.5%

About This Study

The NACS State of the Convenience Store Industry Report has become a recognized publication that presents reliable and up-to-date industry data. NACS is once again distributing this annual State of the Industry report in the belief that this data base will help increase the quality and improve the accuracy of business decisions throughout the convenience store industry. A total of 150 companies that operate 23,225 store units (approximately 43% of the stores on the NACS membership roster) responded to our request for various types of statistical information. This compares to a sample size of 135 companies and 22,256 stores last year.

Following the procedure instituted in developing data for prior reports, we again mailed a condensed questionnaire to "A" size companies (1-10 stores). An independent profile is presented in a separate section of this report. The survey of companies of larger size was based on the more extensive questionnaire which was revised to obtain additional information.

In surveys of this type, responding companies differ from year to year so direct comparability is never entirely possible. We believe, however, that the conclusions drawn from this survey provide an accurate picture of the state of the convenience store industry and serve as a valid indicator of how the industry has coped with the climate in which it operated throughout 1987.

In addition, all the figures in this report are averages based on the number and size of the companies participating in the survey. In calculating averages, each company's response and specific survey question have been weighted according to the relationship of the company's size to the aggregate size of all reporting companies.

As a result, the sample size of each response presented herein will vary. Past years' data have been presented to the extent that such information was presented last year or information relating to new questions was available.

Arthur Andersen & Co., long recognized for its expertise in retail food surveys, has assembled all the data in this report. Arthur Andersen & Co. and NACS feel that the sheer number of responses is highly representative of the state of the industry in 1987 and provides the research reliability desired by NACS Members.

All company responses have been kept strictly confidential by Arthur Andersen & Co.

Table of Participation
NACS Membership and Services Directory
As of 12/31/87

Classification	Number of Stores	Number of Members	Number of Stores	Number of Useable Responses	Number of Stores
A	1-10	790	3,452	86	488
B	11-50	365	7,821	23	577
C	51-200	112	10,332	21	2,189
D	201-500	31	9,570	13	4,186
E	Over 500	14	22,463	7	15,785
		1,312	53,638	150	23,225

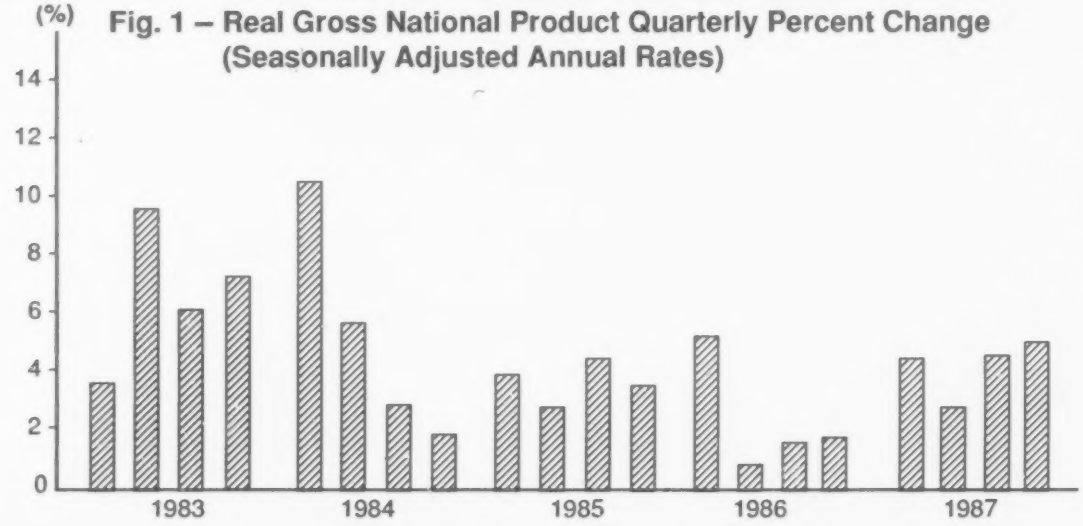
Nineteen Hundred Eighty-Seven

Nineteen hundred eighty-seven was a year of robust economic growth with the economy's real output rising by nearly 4 percent. The structure of the economy appeared to be sounder than it was one year earlier, and an improved international competitive position is strengthening the United States industrial base.

The acceleration in Gross National Product (GNP) was a result of the rebound in three components that had been a drag on growth in 1986: net exports, business fixed investment and inventories. Although the nominal value of imports exceeded exports, real exports rose by nearly 17 percent, helping to turn business fixed investment around. A substantial reduction in the foreign exchange value of the dollar helped to restore the international price competitiveness of U.S. products, and it was a major factor in the turnaround and expected further improvement in the real trade deficit. But growth of imports increased more than 8 percent in real terms over 1986 as U.S. domestic demand picked up.

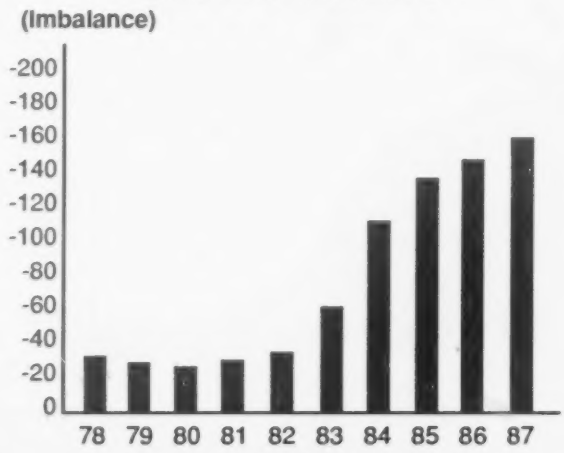
A previously strong component of the economic expansion, and the largest component of GNP, personal consumption expenditures slowed to an almost standstill. Slower growth of real personal income dampened personal consumption expenditure growth. In the past, consumers had increased spending by increasing their borrowing and decreasing savings. Consumers are now more sensitive to their debt. Also, another strong component of the economic expansion, residential fixed investment, declined for the first time since 1981.

Fig. 1 – Real Gross National Product Quarterly Percent Change (Seasonally Adjusted Annual Rates)



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Fig. 2 – United States Trade Balance (Exports less Imports) Billions of Nominal $

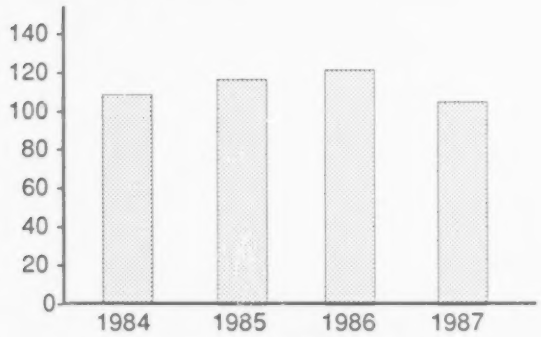


Source: Survey of Current Business

Consumer price increases moved up into the 5 percent range in early 1987, spurred largely by the rebound in world petroleum prices, but inflation for all of 1987 was 3.7 percent.

Significant improvement in the real trade deficit contributed importantly to growth of output and employment for the first time since 1980. Nearly three million additional jobs were created in 1987. The predominant increase in employment remained in service-producing industries, where more than 2 million new jobs were created. The unemployment rate dropped to 5.7 percent in 1987 - its lowest level since 1979. Even with some regional labor shortages, labor-cost inflation has not yet become serious.

Fig. 3 -- U.S. Business Failures Per 10,000 Businesses



Source: Dun and Bradstreet
(Data before 1984 no longer comparable)

Late in the year, the plunge in the stock market and a sharp buildup in inventories raised questions about the long term outlook. Accumulating evidence suggests that the economy survived the October 1987 stock market crash, and economic growth is expected to continue, with inflation remaining subdued.

Business

Changes in the composition of economic growth seemed to have positively affected businesses in 1987. The most recent figures compiled by Dun and Bradstreet show that 102 out of every 10,000 businesses failed in 1987. This was a 15 percent decrease in the failure rate below 1986 and was the first decrease in four years. Retail trade and wholesale trade businesses showed nearly a 10 percent decrease in the total number of failures in 1987 compared to 1986. This more than offset the 2.6 percent decrease in new business incorporations in 1987.

Workers

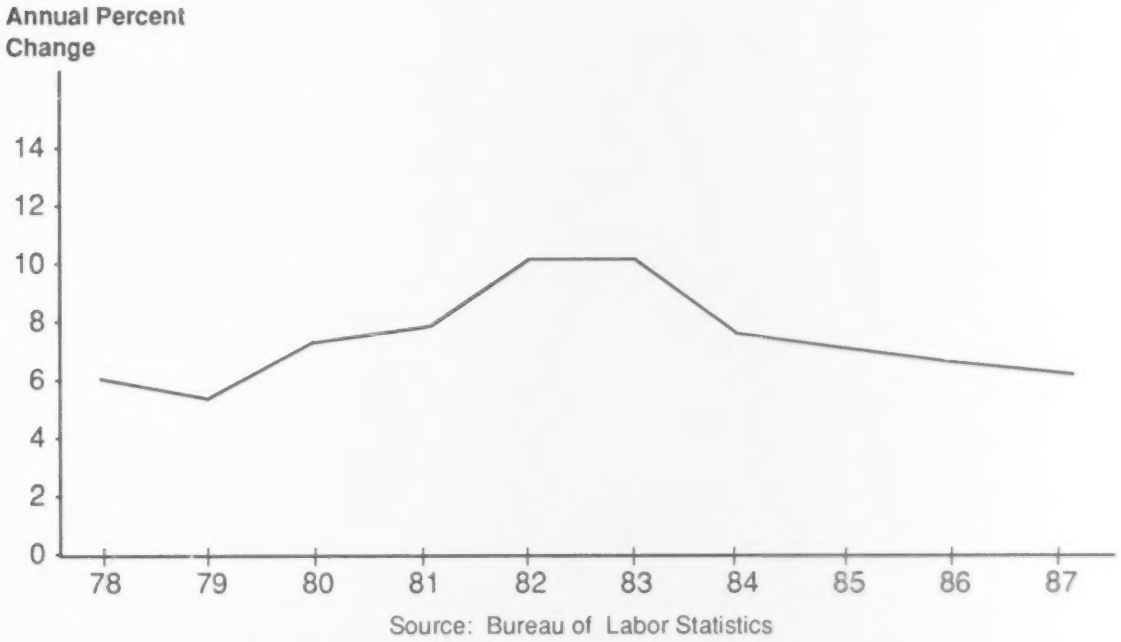
The unemployment rate continued to fall in 1987, reaching 5.7 percent in December and an annualized rate of 6.1 percent. This is the lowest jobless rate in nearly a decade; and as a consequence, regional labor shortages are appearing. The employment-population ratio for persons over 16 years of age reached another postwar peak of 61.9 percent at the end of 1987, and has steadily increased since 1982. The stable unemployment level was aided by the 5.3 percent growth in personal income which outpaced the consumer price increase of 3.7 percent during 1987. Service industry employment continues to grow and retail industries have been forced to find innovative ways to cope with tightening labor markets in some regions, such as New England.

Prices

The consumer price index rose at more than a 5 percent annual rate during each of the first 4 months of 1987, but this initial acceleration did not herald a sustained resurgence of inflation. Consumer prices for the entire year increased by 3.7 percent.

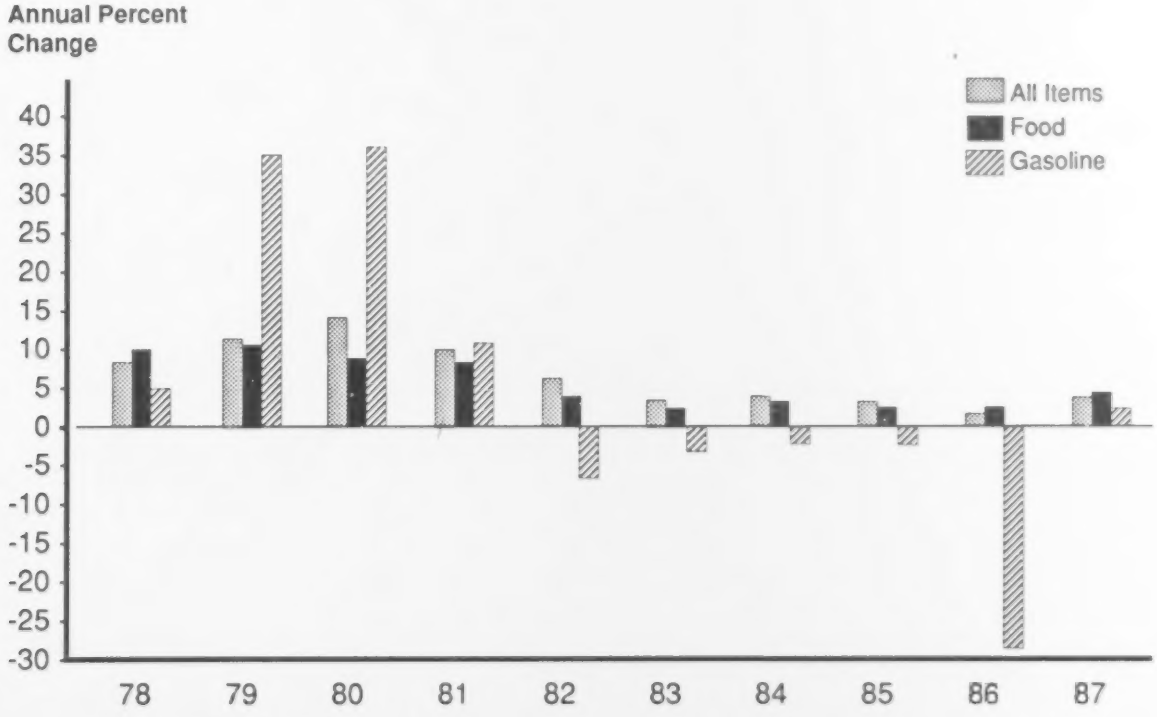
At times during 1987, inflation expectations appeared to flare up. Early in the spring, both the price of gold and interest

Fig. 4 -- Unemployment Rate



Source: Bureau of Labor Statistics

Fig. 5 -- Inflation (Deflation) Rate



Source: Bureau of Labor Statistics

rates rose sharply, apparently reflecting higher inflation expectations as broad indices of commodity prices surged.

The economy had to contend with significant increases in the prices of imports and energy—two categories that earlier in the economic expansion had tended to act as restraining influences on inflation. In 1986, crude oil prices fluctuated wildly; but, during 1987, the price of oil was less volatile, ending the year only a little below its level at the beginning of the year. In early 1987, the higher relative price of oil gave a boost to the aggregate price level with no apparent effect on the economy's underlying inflation rate. Rising import prices have also produced what is hoped to be a transitory upward pressure on the inflation rate. But the degree of "imported" price inflation has been relatively moderate.

Non-oil import prices, which had tended to restrain inflation during the first half of the 1980s, also contributed upward pressure on consumer prices. But this acceleration proved short-lived, and inflation in the second half of the year fell back to the 4 percent rate that characterized most of the current economic expansion.

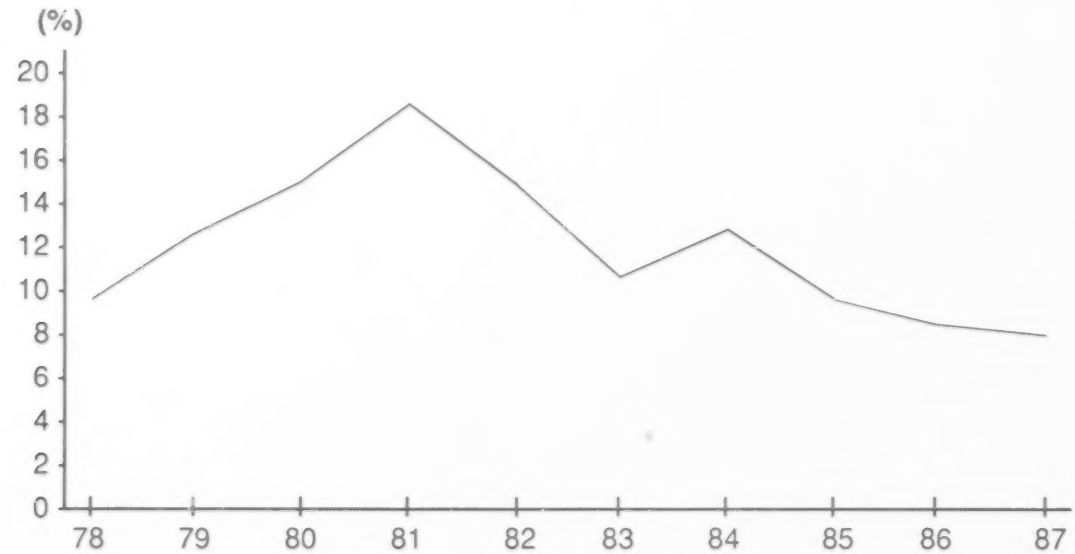
Food prices climbed throughout 1987; but the overall increase was 4.2 percent, still below the 5.3 percent increase in personal income.

Although these broad measures of inflation are up, they are nowhere near the acceleration experienced in similar circumstances in the 1970s when capacity utilization was rising and unemployment was falling.

Finance

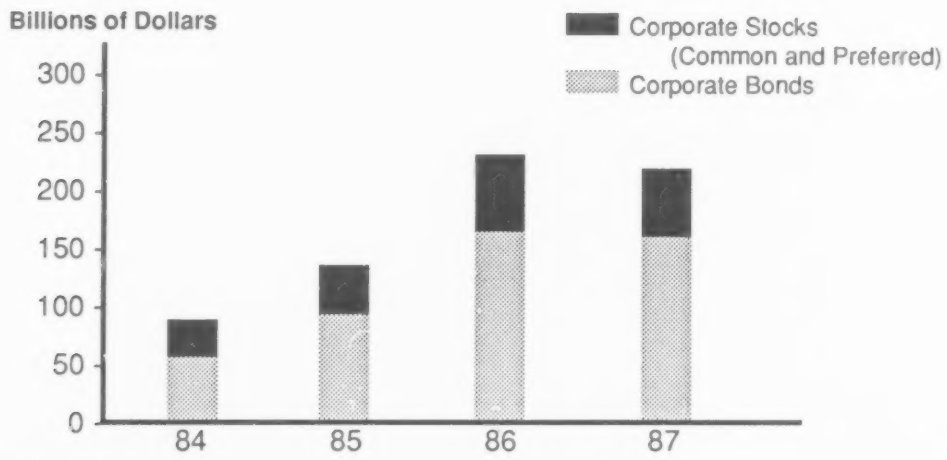
Interest rates crept up during the year and reached their peak before the October stock market crash, after which they declined. The annualized prime rate in 1987 was 8.2 percent, slightly below the annualized 1986 level, and the lowest level in ten years. The real interest rate (adjusted for the rate of inflation and inflation expectations), also was falling but had a long way

Fig. 6 -- Annualized Prime Rate Charged by Banks



Source: Survey of Current Business

Fig. 7 -- Total Corporate Security Issues, Gross Proceeds



Source: Federal Reserve

to go before reaching levels of 10 years ago.

During 1987, business investment responded to the lower rates and strength of the economy—rising 3.7 percent, reversing most of the 4.7 percent decline of 1986.

Slower growth occurred in a more competitive environment even though there had been a massive decline in the exchange value of the dollar during the last few years.

Corporate bond yields, AAA rating, increased .36 of a point during 1987. Business offerings of bonds fell 5.8 percent below the 1986 level and stock offerings were down 2.2 percent for the year. Some industries benefited from a surge in exports while others were aided by the strength of equipment investment. The rebound in oil prices encouraged activity in energy-related industries. The improving trade picture, which is lifting capacity utilization rates in manufacturing industries, will provide much of the motivation for increased investment.

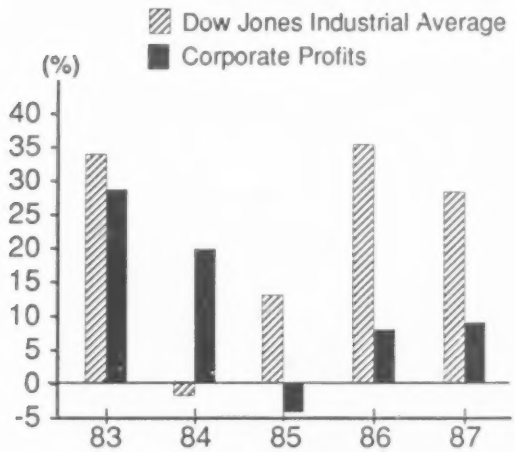
The need for additional capacity to meet demands both for exports and for import substitutes should continue to stimulate investment in equipment and non-residential structures.

Consumers

Consumers continued to extend themselves with their credit cards and home equity lines, but economic growth was less dependent on consumer credit expansion. Consumer credit outstanding increased 6.0 percent during 1987, remaining rather subdued. In 1987, growth of real consumption slowed to a 0.6 percent rate from the rapid pace set earlier in the expansion, and it actually fell at a 3.8 percent annual rate in the fourth quarter. The personal saving rate finished the fourth quarter 1.3 percentage points above the year-earlier fourth quarter rate, due to the drop in consumer spending, and to a strong gain in disposable income during the last quarter of 1987.

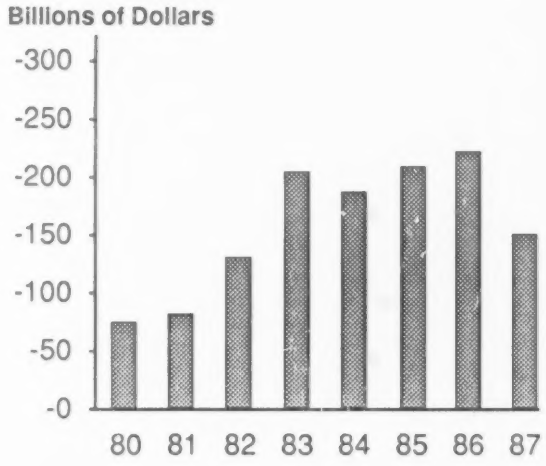
Given the high rate of auto purchases in the third quarter of 1987, the low personal saving rate for most of the year, and the likely effects of October's stock market decline, it was widely anticipated late last year that there would be some downward adjustment in consumer spending.

Fig. 8 -- Annual Percentage Change Dow Jones Industrial Average Corporate Profits



Source: Dow Jones, Federal Reserve

Fig. 9 -- Federal Government Budget Deficit



Source: Budget of the United States Government, FY 1989

It appears that much of that adjustment occurred in the fourth quarter. Total personal consumption expenditures rose 5.9 percent during 1987 which was almost a percentage point higher than the increase in disposable personal income, and only two percentage points away from the consumer price increase. The slower consumer expenditure growth restrained the increase in imports.

Sales

The slowdown in personal consumption expenditures was reflected in total retail sales, which were only 3.6 percent higher than the 1986 level. Durable goods sales were up 2.7 percent in 1987 compared to the 8.8 percent increase in 1986.

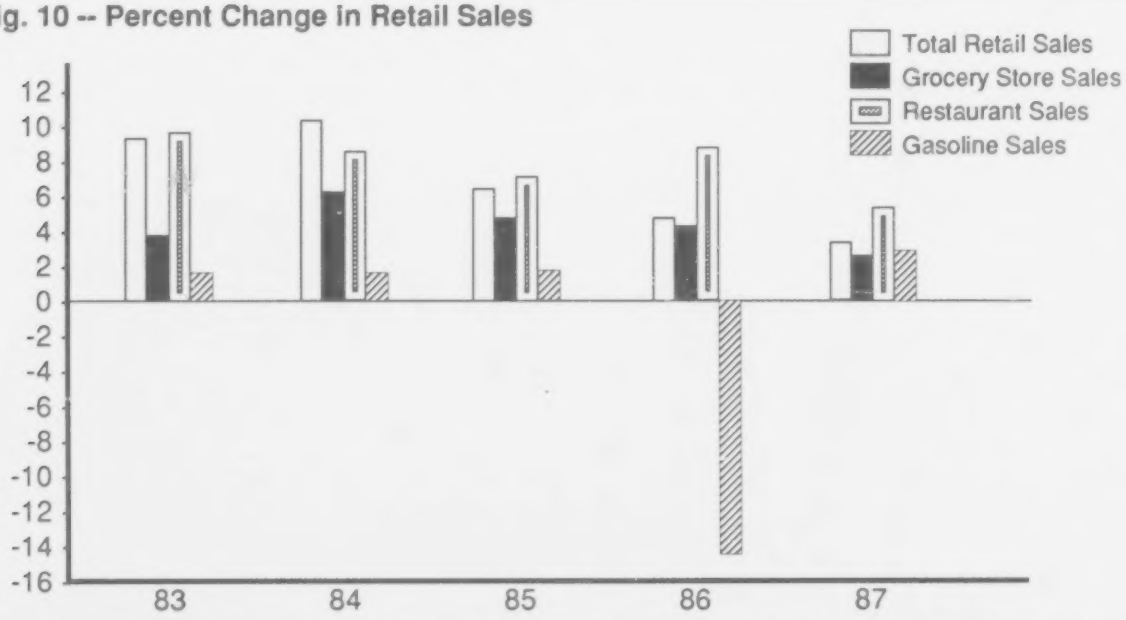
Consumer spending on motor vehicles dropped 5.9 percent in 1987, reversing the 12 percent rise in 1986. With so many households having recently purchased automobiles, fewer remained interested in making a purchase in 1987. In general, purchases of motor vehicles have been highly volatile in recent years as manufacturers have instituted on-again off-again incentive plans. These huge fluctuations in car sales—routine 40 percent annual rates of increase or decrease in a quarter—have induced large swings in the pattern of consumption expenditures, despite the fact that motor vehicles account for less than 10 percent of total consumer spending.

Non-durable goods sales increased 4.2 percent in 1987. Grocery sales were up 2.3 percent while restaurant sales were up 5.5 percent, below the 5.9 percent growth in nominal gross national product. Gasoline service stations' sales dollars were up 3.3 percent, directly affected by the rebound in oil prices.

Change

Nineteen eighty-seven was a year of economic adjustment to the stresses and imbalances which had emerged during the expansion. The strengthening of exports, the turnaround in business fixed investment and the slower growth of consumer spending all were part of a pattern of necessary economic adjustment. Some infla-

Fig. 10 -- Percent Change in Retail Sales



tionary pressures will show up as import prices rise, and as labor markets tighten and capacity utilization rates rise.

Labor markets are tightening, and the labor force from which the convenience store industry draws its employees has been particularly affected by the economic recovery and the changing demographics of the work force. In 1978, the teenage labor force was at 9.7 million, but only ten years later in 1987, it had fallen to 8 million.

Changes such as these are coming at a time when more operators are turning to fast food as a way to increase the bottom line. But these types of changes in product mix require more labor; and with a 134 percent rate of turnover for part-time clerks and cashiers in the convenience story industry, convenience store executives face challenging times ahead. Training costs are high, and labor costs are difficult to pass on to the consumer in the form of increased prices. Attracting and retaining good employees from the available shrinking labor pool will be the number one challenge to the convenience store executive trying to effectively manage a business. Labor related issues of the future include a proposed increase in the minimum wage and mandated health benefits.

Regional differences in labor markets are becoming especially acute and are creating problems as the convenience store industry increases services offered and store size and continues to stay open for extended hours. Some stores have turned to increased automation—Electronic Funds Transfer, Automated Teller Machines, Scanning, and Direct Product Profitability. But these changes do not affect insurance costs and rising construction prices, which are continuing to adversely affect the bottom line. In some regions, there has been a push to acquire existing stores rather than building new ones because of prohibitive costs of new construction.

As the convenience store industry moves toward the 1990s, and becomes an international presence, executives with one store or with thousands of stores will need specialized information to see how they are operating compared to the rest of the world. The State of the Convenience Store Industry Report continues to provide this specialized information.

Industry Sales and Profits

Total sales for the nation's 67,500 convenience stores were approximately $59.6 billion in 1987, up 10.6 percent from 1986 and a sharp increase over 1986's 4.9 percent increase over 1985. This compares very favorably with the 3.6 percent increase in total retail sales in 1987 over 1986. Most of the increase can be attributed to the increase in gasoline sales and to the addition of new stores although non-gas sales per store were also up 2.7 percent for 1987.

Industry gasoline sales increased 14.5 percent in 1987 to $20.5 billion. This also compares very favorably to the 3.3 percent increase in gasoline service station sales in the U.S. in 1987. The percentage of stores selling gas in 1987 was approximately the same as 1986 and, therefore, the increase can be attributed to greater volume coming from the new stores selling gas and the overall increase in gas prices. The average monthly gallons sold per store increased about 2 percent in 1987 compared to 1986.

In-store sales for the convenience store industry were $39.1 billion in 1987. This represents an 8.6 percent increase over 1986. The 1987 sales increases for all grocery stores and restaurants were 2.3 percent and 5.5 percent, respectively.

Although the industry continued its upward trend in sales, total industry profit before taxes declined 6.3 percent to $1.3 billion from $1.4 billion in 1986. Higher operating expenses more than offset the increase in the industry's sales and average store profits dropped to $19,200 in 1987 from $21,900 in 1986.

Total industry employment grew slightly to 500,000 people from 485,000 people in 1986. This number includes full-time and part-time store employees, supervisory personnel, and corporate staff.

Fig. 11 -- Total Convenience Store Industry Sales

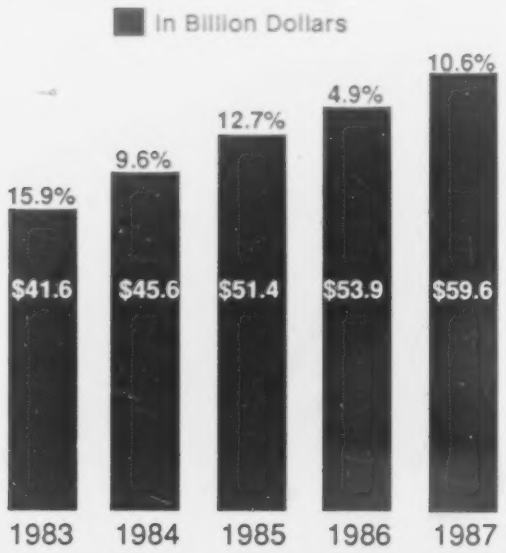


Fig. 12 -- Total Non-Gas vs. Gas Sales

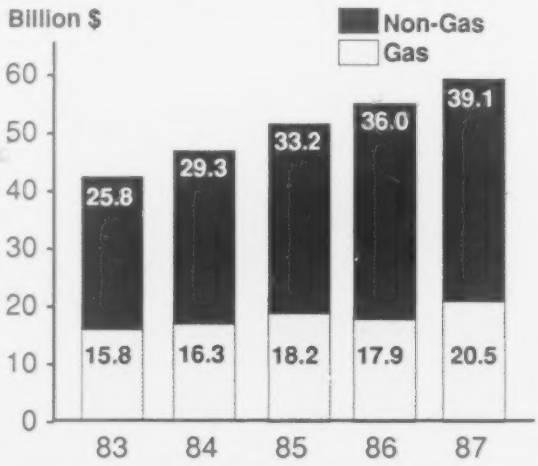
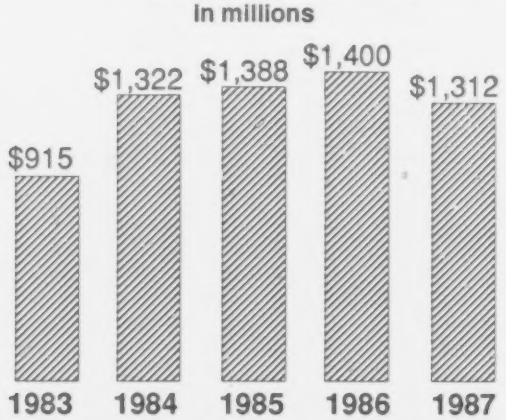


Fig. 13 -- Total Convenience Store Industry Profit Before Taxes



Sales and Profits Per Store

Nineteen eighty-seven saw another decline in the industry's pretax profit to 2.2 percent. This is directly attributable to a reduction in gross profit from 25.1 percent in 1986 to 24.4 percent in 1987. Store operating expenses and corporate general and administrative expenses were relatively the same as a percentage of sales as in 1986. With the exception of Group C Companies, all groups showed a decline in pretax profit as a percent of sales.

Figure 14 presents a comparative analysis of profit and loss information, with additional information relating to non-Gas and Gas sales.

As in 1986, Group B Companies reported the highest pretax profit -- 2.9 percent -- of all reporting groups which is shown in Figure 15. Groups B, D, and E Companies reported decreases in pretax profit for 1987.

A further analysis of gross margin is presented in Figure 16. The gross margin on gas dropped to 10.6 percent in 1987 from 11.2 percent in 1986, thereby giving back some of the improvement in margins achieved in 1986. Although there was an increase in the cost of gas in 1987, competitive pressures prevented the industry from increasing prices sufficiently to cover the total increase in cost. Non-gas sales gross margin held steady at 35.9 percent, representing a .4 percentage point increase over 1986.

Fortunately, as described in the Business Costs section of this report, store operating expenses and general and administrative expenses did not increase as a percentage of sales and, therefore, did not contribute to the deterioration in pretax profits.

Converting percentages to dollars, Figure 17 shows that the annual profit before taxes per store dropped to $19,200 in 1987. Profit before taxes per store has been declining each year since 1984 when it

Fig. 14 -- Comparative Profit and Loss Information (1986 and 1987)

	B		C		D		E		Average	
	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987
Non-Gas Sales	39%	43%	56%	54%	50%	58%	64%	70%	60%	66%
Gas Sales	61	57	44	46	50	42	36	30	40	34
Total Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Goods Sold	79.3	80.5	76.6	77.5	76.7	76.6	72.3	74.1	74.9	75.6
Gross Profit	20.7	19.5	22.4	22.5	23.3	23.4	27.7	25.9	25.1	24.4
Direct Store Operating Expense	14.4	14.3	17.6	16.8	16.8	17.9	19.9	19.0	18.3	18.2
Store Operating Profit	6.3	5.2	4.8	5.7	6.6	5.5	7.8	6.9	6.8	6.2
Corporate G&A	(3.4)	(3.2)	(3.5)	(3.7)	(4.8)	(4.2)	(4.5)	(4.4)	(4.3)	(4.2)
Other Income	.8	1.3	2.0	1.3	1.6	1.3	1.6	1.4	1.7	1.5
Other Expense	(.5)	(.4)	(.9)	(.8)	(1.4)	(.9)	(1.9)	(1.7)	(1.5)	(1.3)
Pretax Profit	3.3%	2.9%	2.4%	2.5%	2.0%	1.7%	3.0%	2.2%	2.6%	2.2%

averaged $23,100. In 1986, the decline was attributed to sharply escalating business costs which offset improved gross margins. As described earlier, the decline in 1987 was due to eroding gross margins.

Average yearly store sales (excluding Gas) shown in Figure 19 continued to increase, although at a much slower rate. The rate of increase in 1987 was 2.7 percent compared to 3.7 percent in 1986, and 6.5 percent in 1985. Group D Companies experienced a 9.7 percent increase and Group E Companies a .8 percent increase. Both Group B and C Companies reported a decrease in average yearly store sales.

This analysis depicts the complex challenges confronting the industry in 1988. Faced with increasing competition and eroding profit margins, an improvement in profitability will be essential to sustain continued growth in the industry.

Merchandising is a key ingredient for the successful operation of convenience stores. Merchandising programs have the two-fold objective of increasing store traffic and increasing the average sale per customer.

Nineteen eighty-seven showed an increase in the average sale per customer (excluding Gas) to $2.03 from $1.98 in 1986 (Figure 21). Average weekly store sales (excluding Gas) increased to $11,140, a 2.7 percent increase over 1986 (Figure 20). Converting average sales (excluding Gas) to average sales per week per square foot, 1987 shows average sales of $3.76 per square foot compared to $3.54 per square foot in 1986 (Figure 22). Overall, this indicates that the merchandising programs were successful in increasing both store traffic and the average sale per square foot. Unfortunately, as shown in Figures 20 through 22, such increases were not experienced by all group Companies.

Fig. 15 -- Pretax Profit as a Percent of Sales (includes Gas) by Classification Group

Group	1983	1984	1985	1986	1987
B	1.5%	1.7%	1.4%	3.3%	2.9%
C	2.1	1.8	1.7	2.4	2.5
D	1.7	2.3	2.5	2.0	1.7
E	2.6	3.3	3.2	3.0	2.4
Average	**2.2**	**3.1**	**2.7**	**2.6**	**2.2**

Fig. 16 -- Gross Profit Margin as a Percent of Sales

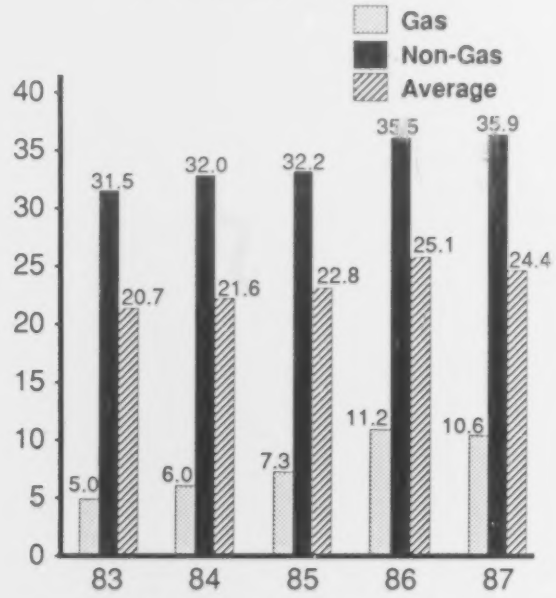


Fig. 17 -- Profit Before Taxes Per Store (in thousands)

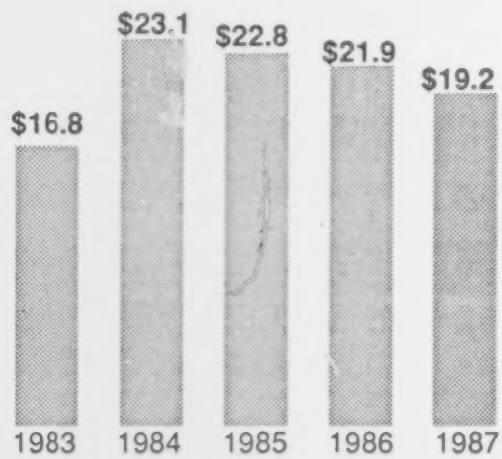


Fig. 18 -- Average Yearly Stores Sales (excluding Gas)

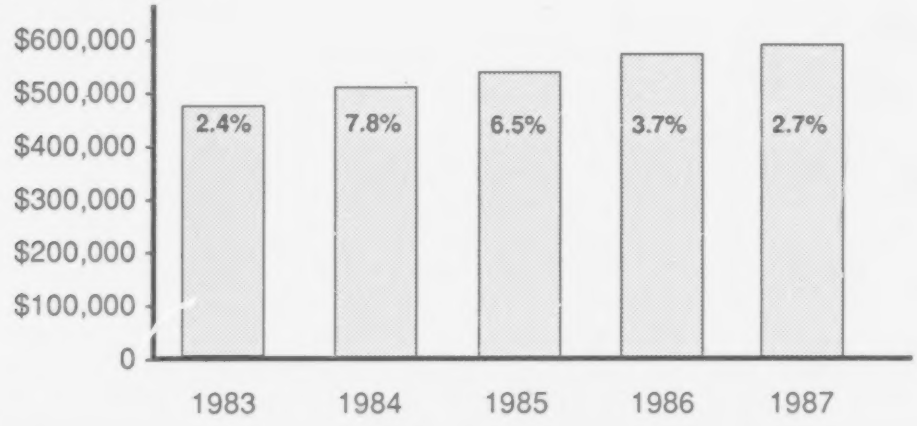


Fig. 19 -- Average Yearly Store Sales (excluding Gas) by Classification Group

Group	1983	1984	1985	1986	1987	1987% Change
B	$370,000	$408,000	$397,000	$411,000	$371,000	(9.7)%
C	440,000	431,000	439,000	466,000	450,000	(3.4)
D	378,000	436,000	470,000	448,000	496,000	9.7
E	511,000	542,000	581,000	619,000	624,000	0.8
Average	**474,000**	**511,000**	**544,000**	**564,000**	**579,000**	**2.7**

Fig. 20 -- Average Weekly Store Sales (excluding Gas) by Classification Group

Group	1983	1984	1985	1986	1987	1987% Change
B	$7,120	$7,850	$7,640	$7,900	$7,130	(9.7)%
C	8,460	8,290	8,440	8,970	8,660	(3.4)
D	7,270	8,380	9,040	8,610	9,540	9.7
E	9,830	10,420	11,170	11,900	12,000	0.8
Average	**9,120**	**9,830**	**10,460**	**10,850**	**11,140**	**2.7**

Fig. 21 -- Average Sale Per Customer (excluding Gas) by Classification Group

Group	1983	1984	1985	1986	1987
B	$2.18	$2.69	$2.40	$2.54	$2.37
C	1.89	2.04	2.22	2.02	1.96
D	1.99	1.98	2.14	1.93	2.27
E	2.09	N/A	1.91	1.96	1.93
Average	**2.00**	**2.04**	**2.07**	**1.98**	**2.03**

Fig. 22 -- Average Sales (excluding Gas) per week Per Square Foot by Classification Group

Group	1986	1987
B	$3.67	$3.68
C	3.76	3.56
D	3.47	3.60
E	3.49	4.37
Average	**3.54**	**3.76**

Store Development

Store growth showed a net increase of 5.4 percent in 1987 compared to a 4.6 percent increase for 1986. The total number of stores in the industry increased from 64,000 in 1986 to 67,500 in 1987. This percentage increase is primarily due to a reduction in the percentage of stores closed as the percentage of new stores opened and stores acquired remained nearly the same for 1987 compared to 1986.

Nineteen eighty-seven showed a moderation in the sharp upward trend in the investment required for new stores experienced over the past several years. Nevertheless, the critical evaluation of profitability of both existing and new stores continues to be a necessity.

As we saw in the Sales and Profits Per Store section of this report, store profitability continued to decline. Although we do not have a break-out of store sales between new stores and existing stores, it is clearly evident that annual sales and profits for new stores will need to exceed the averages for existing stores by a sizeable amount to insure the recovery of the substantial investment required for a new store, as shown in Figure 24. With the reduction in profitability, the industry must not only show substantial increases in new store sales, but must also show improved profits in order for new stores to show an adequate return on investment.

The cost of the urban store increased only 2.1 percent over 1986 with rural stores showing a 4.2 percent increase. This is a sharp reduction from the 12 percent and 20 percent increases for urban stores in 1986 and 1985, respectively, and from the 21 percent and 15 percent increases for rural stores in 1986 and 1985, respectively.

The investment required for land for the urban store declined. Although modest, the cost of land for 1987 declined to $266,000 from $275,400 in 1986. For the rural store, however, the cost of land continues to escalate sharply. In 1987, the cost of land rose to $156,900 from $141,500 in 1986. Due to the increasingly limited availability of urban properties, rural properties continue to be aggressively pursued.

Fig. 23 -- Store Growth Analysis

	1983	1984	1985	1986	1987
New Stores Opened	7.6%	7.3%	8.0%	6.4%	6.4%
Acquired Stores	2.7%	2.9%	3.6%	2.6%	2.7%
	10.3%	10.2%	11.6%	9.0%	9.1%
Stores Sold or Closed	(4.1%)	(4.8%)	(5.1%)	(4.4%)	(3.7%)
Net Increase in Stores	6.2%	5.4%	6.5%	4.6%	5.4%
Actual Number of Stores (000's)	54.4	57.3	61.0	64.0	67.5

Fig. 24 -- Investment per New Store

		1983		1984		1985		1986		1987	
		Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
	Land	$147,900	$89,800	$170,200	$108,700	$212,800	$110,800	$275,400	$141,500	$266,000	$156,900
	Building	125,300	101,700	149,800	106,900	180,000	118,900	158,300	141,500	181,300	152,800
Equipment	Fast Food	14,200	7,700	14,100	9,100	19,000	16,200	19,900	18,500	22,100	17,700
	Gas	59,900	50,000	55,100	49,400	65,700	73,700	88,000	89,500	84,900	85,300
	Non-Gas	53,600	48,000	61,000	39,300	63,300	48,100	68,300	55,300	64,500	51,500
	Total Equipment	127,700	105,700	130,200	97,800	148,000	138,000	176,400	163,300	171,500	154,500
	Inventory	50,000	45,000	46,000	42,800	56,900	43,100	58,600	50,100	64,000	53,200
	Total Investment	$450,900	$342,200	$496,200	$356,200	$597,700	$410,800	$668,600	$496,400	$682,800	$517,400

Building costs showed increases for both the urban and rural stores. Not surprisingly, such building costs are rising faster for the urban store compared to the rural store.

Nineteen eighty-seven also saw the continued upward trend in the cost of inventory for both urban and rural stores. The new store will need to carry new and varied merchandise to support the higher level of sales required for the new store.

Equipment costs in 1987 leveled off, showing a slight decline to $171,500 for the urban store, and $154,500 for the rural store compared to $176,400 for the urban store and $163,300 for the rural store in 1986. The urban store reported an increase in the cost of fast food equipment with both the urban and rural store reporting declines in both gas and non-gas equipment costs.

The average square footage of the urban store was 2,876 compared to 2,845 in the prior year. For the rural store, the square footage was 2,582 compared to 2,560 in the prior year. The average square footage of new stores was reported to be 2,569 compared to 2,711 in the prior year. The average lot size of a new store was 29,949 square feet compared to 23,378 square feet for existing stores.

Figure 25 shows that the majority of stores - 76 percent - have square footage between 2,000 and 3,000 with only 6 percent of stores having less than 1,000 square feet.

The average monthly rent increased for both the new and the existing store. The rent for a new store increased 5.4 percent to $3,500 a month compared to a 2.4 percent increase for the existing store. This is down from the 19 percent and 10 percent increases incurred in 1986 by new stores and existing stores, respectively. The continued increase in the investment required for a new store is, of course, reflected in the monthly rents. The average monthly rent increased to $1,491 in 1987 from $1,456 in 1986 for existing stores and is probably also affected by the cost of new stores, with investors setting rent levels based on the current cost of land acquisitions and store construction.

Approximately 25 percent of existing stores are owned and 75 percent are leased, the same as last year. For new stores, approximately 31 percent are owned and 69 percent are leased.

Fig. 25 -- Store Square Footage 1987

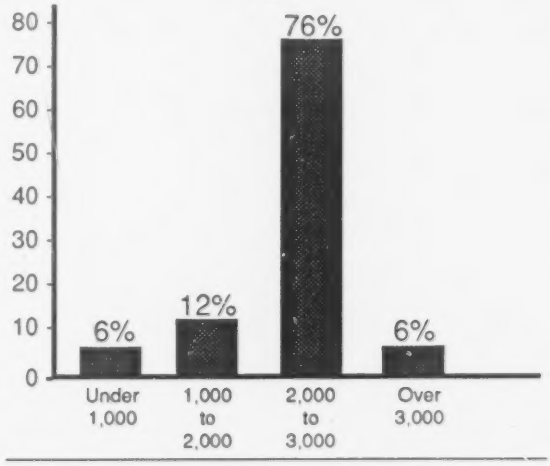
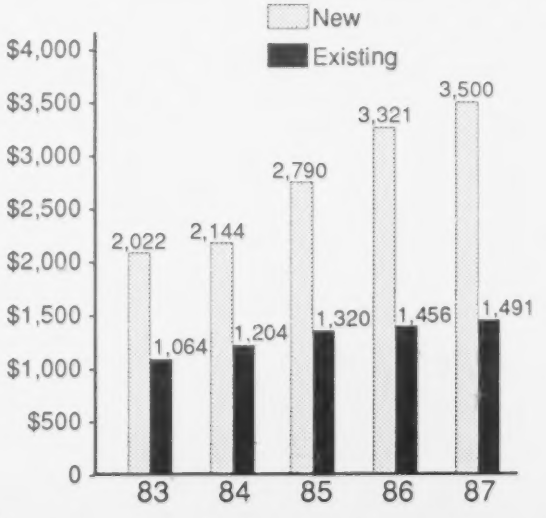


Fig. 26 -- Average Monthly Rent For New and Existing Stores



Business Costs

The decline in pretax profits in 1987 was primarily the result of the decrease in gross margins. This section discusses various expense categories which on average the industry was able to keep in line with 1986.

Figure 28 presents a summary of selected expense items. As shown, there were no consistent across the board increases. Labor, as a percentage of non-Gas and total sales, decreased slightly, reversing the trend of increases that occurred over the last 3 years.

Interest expense has continued to increase and is at its highest level as a percentage of non-Gas and total sales for all years presented. Nineteen eighty-seven saw several major acquisitions and management buy-outs. Coupled with the financing required for new store development, interest costs reflect the additional debt being carried by the industry.

As shown in Figure 27, the average monthly utility cost per store decreased 2.8 percent to $1,156 in 1987 from $1,190 in 1986. This is the first decrease in the five years presented. As a percentage of non-Gas and total sales, utility costs were 3.3 percent and 1.9 percent in 1987 compared to 3.2 percent and 2.2 percent in 1986, respectively.

General and administrative expenses, as a percentage of non-Gas sales increased to 7.7 percent in 1987 from 6.6 percent in 1986 as shown in Figure 29. As a percentage of total sales, these expenses were 4.2 percent in 1987 compared to 4.3 percent in 1986.

Advertising expenses, as a percentage of non-Gas and total sales, remained constant, showing little change from the 1986 percentages.

Labor continues to represent the largest single expenditure and the ability to control wage rates and the average number of employees relative to sales is crucial to cost control. Labor costs, as shown in Figure 28, showed that, as a percentage of non-Gas and total sales, such costs were 13.7 percent and 7.9 percent compared to 13.8 percent and 8.2 percent in 1986, respectively. This reduction corresponds to the reduction in the average number of employees shown in Figure 30. The average number of employees per store decreased to 7.4 in 1987 from 7.6 in 1986.

Fig. 27 -- Average Monthly Utility Cost per Store

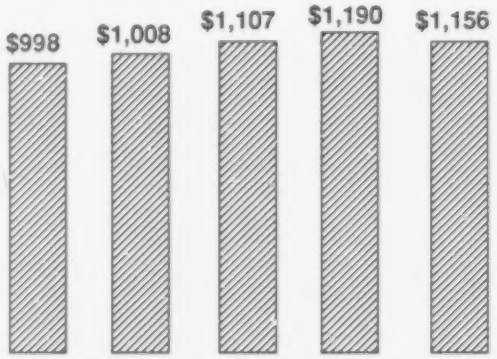


Fig. 28 -- Selected Expense Profile as a Percent of Non-Gas and Total Sales

	1983		1984		1985		1986		1987	
	Non-Gas	Total	Non-Gas	Total	Non-Gas	Total	Non-Gas	Total	Non-Gas	Total
Labor	12.7%	7.5%	12.2%	7.0%	12.6%	8.0%	13.8%	8.2%	13.7%	7.9%
Utility	3.2	2.0	3.0	1.8	3.1	1.9	3.2	2.2	3.3	1.9
Advertising	.4	.2	.4	.3	.6	.4	.6	.4	.5	.3
Interest Expense	1.1	.5	1.0	.7	1.2	.8	1.8	1.2	2.2	1.3

Fig. 29 -- General and Administrative Expenses by Classification Group

	As a % of Non-Gas Sales					As a % of Total Sales				
Group	1983	1984	1985	1986	1987	1983	1984	1985	1986	1987
B	8.2%	6.6%	5.7%	8.1%	8.0%	3.2%	3.0%	2.5%	3.4%	3.2%
C	6.0	5.9	7.3	6.3	6.8	3.3	3.0	3.4	3.5	3.7
D	7.2	6.9	5.4	6.8	7.9	3.2	3.0	2.7	4.8	4.2
E	6.2	6.8	6.1	6.6	7.8	4.1	5.0	4.1	4.5	4.4
Average	**6.6**	**6.6**	**6.1**	**6.6**	**7.7**	**3.6**	**3.9**	**3.6**	**4.3**	**4.2**

This decrease, however, is primarily attributable to the Group E Companies which showed a decrease in their average number of employees per store to 5.9 from 6.1 in 1986. Group B, C, and D Companies reported an increase. Comparable results were reported for the average number of store employees per store, in which the average decreased to 6.8 in 1987 from 7.0 in 1986. Again, it was the Group E Companies that reported a decrease with Group B, C, and D Companies reporting increases.

Reported non-gas inventory shrinkage for the industry was 1.3 percent of non-gas sales in 1987, the same as in 1986. Group B Companies reported inventory shrinkage of .9 percent up slightly from .8 percent in 1986. Group C Companies reported .8 percent down from 1.3 percent in 1986. Group D reported .9 percent, the same as in 1986. Group E Companies reported 1.7 percent, up slightly from 1.6 percent in 1986.

Insurance and taxes continued their upward trend. Industry averages for insurance and taxes increased 17 percent. Although this is a reduction from the 1986 increase of 43 percent, insurance and taxes are now $8,200 per store. This represents a 115 percent increase over 1983.

Depreciation and equipment rent also represent a sizeable portion of fixed store expenses but fell to $14,800 in 1987 from $14,900 in 1986. This was a .7 percent decrease compared to increases of 34 percent in 1986 and 29 percent in 1985. With the exception of Group "E" Companies, all groups experienced sizeable increases. It is not surprising to see a high level of depreciation and equipment rent expense due to the significant increase in the cost of buildings and equipment for new stores over the past several years. Since 1983, depreciation and equipment rent have risen 85 percent.

Fig. 30 -- Employees by Classification Group

	Average Number of Store Employees Per Store			Average Number of Non-Store Employees			Average Number Employees Per Store		
Group	1985	1986	1987	1985	1986	1987	1985	1986	1987
B	7.1	7.7	8.5	.7	1.0	.8	7.8	8.7	9.3
C	6.4	6.8	7.3	.7	.8	.7	7.1	7.5	8.0
D	8.3	8.6	8.9	.6	.6	.7	8.9	9.2	9.6
E	5.2	5.6	5.4	.4	.5	.5	5.6	6.1	5.9
Average	**6.0**	**7.0**	**6.8**	**.5**	**.6**	**.6**	**6.5**	**7.6**	**7.4**

Fig. 31 -- Fixed Store Expenses by Classification Group

	Insurance and Taxes					Depreciation and Equipment Rent				
Group	1983	1984	1985	1986	1987	1983	1984	1985	1986	1987
B	$3,300	$4,100	$5,100	$6,500	$6,900	$8,000	$8,500	$9,800	$13,300	$15,500
C	3,300	3,900	4,400	6,700	7,200	7,900	9,100	11,000	13,700	14,400
D	3,900	3,800	4,600	7,300	6,700	8,700	7,500	9,000	12,600	14,800
E	3,900	4,600	5,200	7,000	9,200	8,000	8,800	12,400	15,100	14,700
Average	**3,800**	**4,200**	**4,900**	**7,000**	**8,200**	**8,000**	**8,600**	**11,100**	**14,900**	**14,800**

Inflation and LIFO

Consumer Price Index

The inflation rate during 1987 continued at a moderate rate. Although the 1987 rate of 3.7% exceeded the 1.9% in 1986, it was in line with the rate of inflation experienced from 1983 through 1985.

Figure 32 compares the overall rate by quarters as measured by the Consumer Price Index (CPI). The index assumes a typical "market basket" of goods and services purchased by consumers.

Fig. 32 -- Consumer Price Index "Cost of Living" Increases

	1983	1984	1985	1986	1987
Ist Quarter	0.0%	4.4%	4.3%	(1.7%)	8.0%
2nd Quarter	5.1	4.3	4.4	2.3	2.8
3rd Quarter	4.9	4.4	2.7	2.8	6.1
4th Quarter	3.5	2.9	3.6	1.1	0.5
Average per Year	3.2	4.3	3.6	1.9	3.7

Source: Bureau of Labor Statistics

The CPI inflation rate is heavily influenced by energy prices, home mortgage rates and other factors that are not part of the convenience store inflation rate which is based on changes in inventory prices.

During 1987, the average price of convenience store products (gas and non-gas) increased 2.5% from 1986. 1986 saw a .1% decrease from 1985. The 2.5% 1987 increase is below the overall 3.7% increase in consumer prices in 1987. As a further breakdown, the price of non-gas convenience store products increased 3.4% while gas prices increased 1.3% over 1986. The CPI inflation rate for food products in general was 4.2% in 1987 compared to 3.2% in 1986.

Although modest, the inflationary cost pressures in non-gas and gas may have contributed to the reduction of gross margins in 1987.

LIFO

LIFO is an inventory costing technique which charges the most recent cost of goods to cost of sales and thereby reduces the reported profits in an inflationary period.

Approximately 44% of convenience store companies reporting (representing 56% of all stores) now use LIFO to value their inventories. Some 13% of Group B Companies, 72% of Group C Companies, 62% of Group D Companies and 29% of Group E Companies currently are on LIFO.

The inventory inflation rate reported by operators using the LIFO method for non-gas inventories was 3.4%, which is based on a mixture of fiscal year-ends and different product mixes. Based on the 3.4% reported LIFO inflation rate and assuming a non-gas inventory investment of $50,000, a company using the LIFO method would report approximately $1,700 less pretax profit per store. Assuming a composite Federal and state income tax rate of 40%, companies on LIFO would have increased 1987 cash flow by about $680 per store on their non-gas inventory alone.

Fig. 33 -- Percentage of Total Companies Using LIFO for Non-Gas Inventory in 1987

B	13%
C	72%
D	62%
E	29%
Average	**44%**

Fig. 34 -- Percentage of Total Companies Using LIFO for Gas Inventory in 1987

B	65%
C	43%
D	62%
E	29%
Average	**53%**

Gasoline Operations

The average dollar gasoline sales per store with gas were $509,000 in 1987. The average store pumped 47,000 gallons per month, up from 46,000 gallons reported for 1986. The average annual gallons per hose were more than 80,000.

The average margin per gallon dropped slightly from last year. The average gross margin of company-owned gasoline was 9.3 cents in 1987 compared to 9.7 cents in 1986. The gross margin on commission pump gasoline was 5.1 cents in 1987 versus 5.4 cents per gallon a year earlier. The overall average margin (owned and commission) decreased in 1987 to 9.1 cents per gallon from 9.5 cents per gallon in 1986.

The average selling price per gallon was $0.88 in 1987, up from $0.85 in 1986. Despite the slightly higher price, the average gasoline sale per customer dropped to $7.33 in 1987 from $7.67 for the prior year.

The percentage of convenience stores selling gas was 59%, about the same as last year (Figure 35). The percentage of newly-built stores with gas dropped from 78% in 1986 to 75% in 1987 (Figure 37). The D and E size Companies showed a decrease while B and C size Companies had an increase in percent of new stores with gasoline.

Average monthly gallons per store are shown, by size, in Figure 39. The industry average was up to 47,000 gallons. The Group B Companies pumped an average of 60,000 gallons, the Group C Companies 49,000 gallons, the Group D Companies 48,000 gallons, and the Group E Companies 46,000 gallons per month.

In 1987, 94% of the stores selling gas were "company-owned" operations while 6% were operated on a commission basis. The percent of commission operated stores was 8% in 1986, thus 1987 continued the trend of fewer commission gasoline operations in the convenience store industry.

The average number of gasoline hoses per store was 7 in 1987, the same as 1986. In 1987, 50% of all stores with gasoline had canopies, up from 45% in 1986.

Unbranded sales represented 40% of all gasoline sales in 1987, while branded sales accounted for 60%. Also, 27% of all gasoline sales were credit card sales.

Less than 1% of the stores selling gasoline had automated dispensing and island card readers.

Fig. 35 -- Percentage of Stores Selling Gas

Year	Percent Selling Gas
1983	52%
1984	50%
1985	55%
1986	60%
1987	**59%**

Fig. 36 -- Gallons Per Gas Hose

Store Type	Gallons/Hose
B	66,570
C	72,720
D	64,510
E	92,860
Average	**80,860**

Fig. 37 -- Percentage of New Stores with Gas by Classification Group

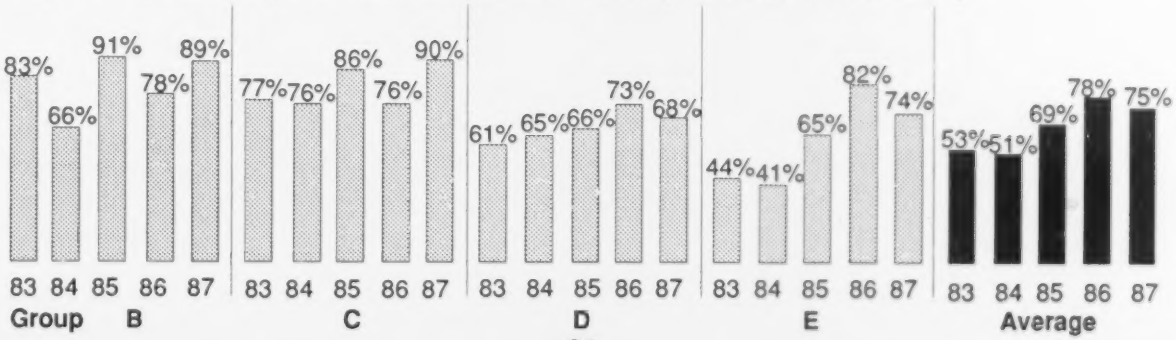


Fig. 38 -- Average Monthly Gallons Sold per Store (000)

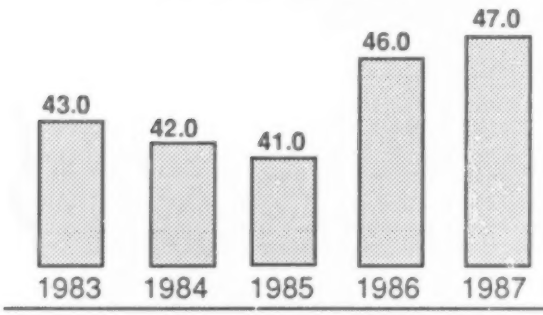


Fig. 39 -- Average Monthly Gallons Sold per Store by Classification Group

Group	1983	1984	1985	1986	1987
B	37,000	46,000	52,000	68,000	60,000
C	37,000	44,000	49,000	50,000	49,000
D	49,000	52,000	45,000	48,000	48,000
E	41,000	40,000	37,000	42,000	46,000
Average	**43,000**	**42,000**	**41,000**	**46,000**	**47,000**

Fig. 40 -- Average Margin per Gallon (in cents)

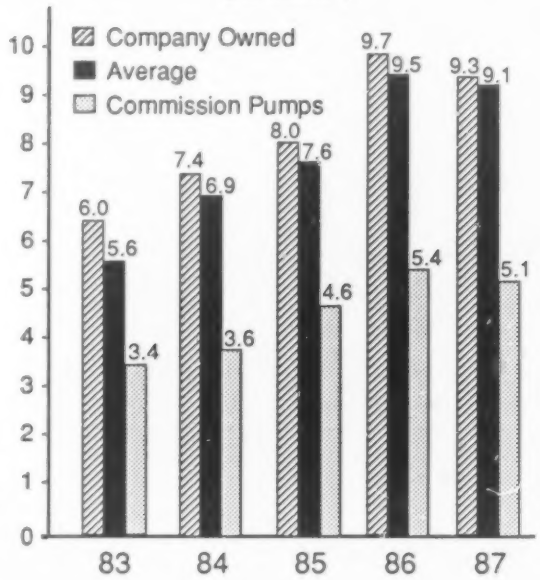


Fig. 41 -- Percent of Surveyed Convenience Stores Offering the Following by Classification Group:

	B			C			D			E			TOTAL		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
Microwave Equip.	92%	97%	98%	94%	96%	89%	74%	89%	87%	99%	99%	95%	93%	97%	92%
Money Order	25	53	63	54	62	71	55	70	62	94	77	93	80	73	84
Check Cashing	61	36	60	59	43	58	64	77	59	72	85	88	69	73	74
Fountain Drinks	82	87	91	85	84	94	69	92	94	99	99	96	95	96	95
Open 24 Hours	46	55	60	43	51	59	63	73	70	91	88	85	79	80	75
Prepared Foods	55	60	78	35	37	60	42	46	64	85	89	88	70	73	80
Service Deli	23	40	30	22	25	31	31	27	36	21	29	32	23	29	33
Film Processing	18	14	6	9	4	6	4	4	3	0	1	2	2	3	3
On Premise Bakery	4	8	4	8	5	8	9	11	11	1	0	0	3	5	5
Fried Chicken	8	13	13	8	6	6	3	4	3	0	0	3	2	3	4
Video Games	27	23	21	45	47	46	43	40	31	84	89	83	73	61	60
Automated Tellers	1	0	0	2	3	3	12	13	13	14	13	14	12	12	12
Vending Machines	4	5	8	4	20	15	5	8	9	1	3	4	3	8	7
Credit Cards		68	63		54	71		38	52		26	36		37	47
Video Rentals		31	45		46	56		25	51		51	68		44	63
Lotteries		34	41		21	31		18	38		38	39		28	38
Debit Cards		5	7		5	0		7	16		17	13		11	12
Seating for Fast Food Customers		16	18		3	17		2	1		7	8		5	8
Pizza			13			6			11			6			7
Other on-Premise Food			3			12			13			19			17
No Parking			3			1			1			1			3
1-10 Parking Spaces			82			64			77			93			83
10+ Parking Spaces			15			35			22			6			14

Marketing and In-store Merchandising

Tobacco, beer and soft drinks rank 1, 2, and 3, respectively, in convenience store sales. Tobacco and soft drinks are sold in almost every convenience store, while beer is sold in only 78 percent of the industry's stores. Data on percent of stores selling each product category are shown in Figure 42. Figure 43 gives product category sales as a percent of total store sales.

The product categories with the highest reported gross margin in 1987 were hot beverages, fountain drinks and ice. Gross margins by product category are presented in Figure 43. There was relatively little change in product category margins reported for 1987 versus the 1986 margins.

The average store inventory turnover was 11.1 times. Figure 43 shows inventory turns for several product categories. (The number of companies responding to the inventory turnover question was only 29 percent of total companies responding, so the sample size was limited. This should be considered when evaluating the turnover data.)

More than 90 percent of all convenience stores have microwave and fountain drink equipment. Sixty percent of the stores have video games and 63 percent rent video tapes. A majority of the stores also provide money orders, check cashing and prepared foods.

Over three-fourths of all convenience stores are open 24 hours per day. Also, most stores (97 percent) offer parking, with 14 percent of all stores having 10 or more parking spots.

Convenience stores have, on average, 1.7 cash registers per store. Of the stores reporting for this year's survey, about 1 percent had Point of Sale Scanning.

Fig. 42 – Percent of Stores That Sell the Following Categories (by Classification Group):

	B	C	D	E	Average
Cooler					
Beer (Hot & Cold)	67.2%	66.2%	69.9%	81.8%	77.8%
Soft Drinks (Hot & Cold)	92.2	98.1	100.0	99.9	99.6
Juices	87.9	100.0	98.9	99.8	99.4
Milk & Milk Products	99.3	100.0	97.8	98.9	98.8
Packaged Deli	76.0	77.2	83.3	74.3	76.3
Produce	49.4	43.5	56.8	23.5	37.0
Eggs	90.8	98.4	95.6	75.0	81.5
Frozen					
Frozen Food	77.4	96.7	80.0	94.8	91.9
Ice Cream	91.4	98.2	97.3	95.9	96.3
Ice	96.3	97.5	96.7	100.0	99.1
Room Temp.					
Bread & Cakes	99.5	98.9	98.4	99.7	99.4
Cookies	90.3	87.1	92.3	99.6	96.8
Salty Snacks (Chips, Nuts, etc.)	99.7	99.0	98.4	99.8	99.5
Candy & Gum	99.5	100.0	98.4	99.9	99.6
Groceries	91.8	99.6	98.4	98.6	98.5
Health & Beauty Aids	92.3	99.7	98.3	99.8	99.4
Tobacco	100.0	100.0	100.0	100.0	100.0
Publications	73.5	96.4	95.6	97.9	96.8
Wine/Liquor	36.6	39.5	51.2	21.5	29.1
Automotive/ Motor Oil	98.7	99.7	93.6	99.9	98.7
General Merchandise	88.6	98.8	89.6	99.8	97.6
Fast Food					
Sandwiches— Fresh	58.9	56.2	65.4	41.8	48.0
Sandwiches— Frozen	54.6	61.8	21.8	85.8	70.9
Deli Services (excluding sandwiches)	48.0	30.7	34.0	20.3	24.5
Food Cooked On-site	29.5	28.8	15.5	62.9	50.0
Fountain Drinks	91.0	94.0	94.0	96.0	95.0
Frozen Beverages	70.8	42.6	55.2	94.0	81.3
Hot Beverages	98.4	92.7	83.2	99.2	95.6
Other Fast Food	28.9	33.9	32.1	25.9	29.0

Fig. 43 -- Industry Averages by Product Category

	Percent of Non-Gas Purchases				Gross Margin Percentage		Inventory Turnover Rate
	1984	1985	1986	1987	1986	1987	1987
Cooler							
Beer (Hot & Cold)	13.7%	13.9%	13.7%	13.6%	26%	27%	21.3
Soft Drinks (Hot & Cold)	11.3	10.2	10.3	9.7	34	35	19.5
Juices	0.8	1.0	1.4	1.2	38	40	16.6
Milk & Milk Products	6.9	6.6	5.9	5.8	22	23	60.8
Packaged Deli	1.3	1.2	0.8	0.9	35	34	18.1
Produce	0.4	0.4	0.6	0.7	28	26	46.1
Eggs	0.4	0.4	0.3	0.3	23	26	26.6
Frozen							
Frozen Food	0.7	0.7	0.7	0.6	37	36	7.1
Ice Cream	1.6	1.6	1.4	1.3	37	39	14.8
Ice	0.9	0.9	1.0	0.8	54	56	31.5
Room Temp.							
Bread & Cakes	4.0	3.5	3.3	3.3	29	29	59.3
Cookies	0.8	0.8	0.9	0.7	36	36	11.8
Salty Snacks (Chips, Nuts, etc.)	3.8	3.7	3.9	4.2	37	36	32.1
Candy & Gum	4.9	4.9	4.9	5.3	42	42	26.1
Groceries	9.0	5.9	5.6	5.6	36	35	8.0
Health & Beauty Aids	3.3	3.4	3.0	3.0	39	38	6.9
Tobacco	18.1	17.8	19.8	20.7	29	29	23.7
Publications	4.0	5.4	3.7	3.7	21	20	19.7
Wine/Liquor	1.3	1.3	1.4	1.3	30	30	16.4
Automotive/Motor Oil	0.8	0.7	0.9	1.4	36	40	14.5
General Merchandise	2.3	2.6	2.1	2.8	40	41	10.9
Fast Food							
Sandwiches—Fresh	1.7	1.7	1.3	1.8	39	41	54.2
Sandwiches—Frozen	1.2	1.4	1.3	1.2	38	37	31.1
Deli Services (excluding sandwiches)	1.3	3.0	3.3	3.0	47	45	34.4
Food Cooked On-site	0.2	0.3	0.4	0.8	47	42	64.6
Fountain Drinks	2.4	2.6	3.6	2.4	61	60	20.5
Frozen Beverages	0.5	0.9	0.9	0.9	41	43	8.9
Hot Beverages	1.2	1.6	2.7	2.1	66	66	31.8
Other Fast Food	1.2	1.6	0.9	0.9	42	39	41.5
Total Non-Gas Merchandise	100%	100%	100%	100%			11.1

Fig. 44 -- Percentage of Companies Warehousing Specific Product Categories

	1986	1987
Dry Grocery	18%	15%
Health and Beauty Aids	14	8
Dairy	16	23
Frozen Foods	12	13
Fast Foods	12	11
Tobacco	21	19
Soft Drinks	16	15

"A" Company Report

This section of the report specifically focuses on operations of smaller convenience store companies—1 to 10 stores. The smaller operations include companies new to the business and often have unique operating characteristics. A special simplified questionnaire was mailed to NACS member companies having 10 or fewer stores. Eighty-six firms operating a total of 488 stores responded to the survey.

Store Characteristics

The "A" size Companies operate stores that vary widely in physical size. Sixty-five percent of the stores were less than 2,000 square feet and 35 percent were more than 2,000 square feet.

Fig. 45 -- Store Characteristics

Size (Percent of Stores)	
Under 1000 sq. ft.	21%
1000 - 2000 sq. ft.	44%
2000 - 3000 sq. ft.	29%
Over 3000 sq. ft.	6%
Hours Open (Percent of Stores)	
Less than 24 hours	56%
24 hours per day	44%
Parking Spaces (Percent of Stores)	
No parking	6%
1-10 spaces	62%
More than 10 spaces	32%
Percent of Stores with POS Scanning	6%
Average Number of Cash Registers per store	1.5

Although many of the stores were smaller than the B, C, D, and E Company convenience stores, 94 percent provide customer parking spaces. Only 44 percent of the "A" Companies were open 24 hours.

The stores included in the survey had an average of 1.5 cash registers per store. Six percent of the stores had Point-of-Sale (POS) scanning.

Operating Results

Average annual sales per store were $1,066,000, with $380,000 in sales of in-store merchandise. Ninety percent of the stores surveyed sold gasoline and had monthly gasoline sales of 74,000 gallons per store.

The average gasoline gross margin was 11.6 percent and the average non-Gas margin was 28.6 percent. Direct store operating expenses were 14.4 percent of sales, while general and administrative costs accounted for 3.7 percent of sales. Inventory shrink was 1.4 percent of non-gas sales. Other income and other expenses totaled 2.2 percent and 3.6 percent of total sales respectively. The bottom line for "A" Company stores was a pretax profit of 2.3 percent of total sales, down from 2.5 percent in 1986.

Fig. 46 -- "A" Sales and Profitability

	Average Yearly Sales Per Store		Average Non-Gas Gross Margin	Average Pretax Profit Including Gas
	Including Gas	Non-Gas		
1987	$1,066,000	$380,000	28.6%	2.3%
1986	1,111,000	337,000	28.4	2.5
1985	1,076,000	343,000	29.1	2.1
1984	881,000	357,000	26.9	2.4

Fig. 47 -- Operating Results

	1986	1987
Total Sales per Store	$1,111,000	$1,066,000
Non-Gas Sales per Store	$337,000	$380,000
Average Monthly Gallons of Gasoline per Store	N/A	74,382
Average Non-Gas Margin	28.4%	28.6%
Average Gasoline Gross Margin	12.1%	11.6%
Percent of Stores Selling Gasoline	92.0%	90.0%
Inventory Shrink as a Percent of Non-Gas Sales	1.5%	1.4%
Percent of Total Sales:		
Direct Store Operating Expenses	N/A	14.4%
General and Administrative Expenses	4.6%	3.7%
Other Income	3.4%	2.2%
Other Expenses	4.5%	3.6%
Pretax Profit	2.5%	2.3%

Products and Services

Most "A" size Companies offered the full range of convenience product categories in their store. In addition, 15 percent of the stores sold fried chicken, 27 percent had a service deli, 11 percent sold pizza and 7 percent had an on-premise bakery.

The stores surveyed also had numerous customer services. Thirty percent rented videos, 35 percent offered lottery tickets, 43 percent accepted checks, 22 percent sold money orders and 77 percent accepted credit cards.

Fig. 48 -- Service Offering -- Percent of Stores Offering the Following Services:

Microwave Equipment	92%
Lottery Tickets	35
Vending Machines	12
Video Games	17
Film Processing	6
Video Rentals	30
Money Orders	22
Check Cashing	43
Automated Teller Machines	4
Credit Cards	77
Debit Cards	3

Fig. 49 -- Product Offering -- Percent of Stores Selling the Following Product Categories:

Cooler	
Beer (Hot & Cold)	70.8%
Soft Drinks (Hot & Cold)	97.5
Juices	96.2
Milk & Milk Products	93.2
Packaged Deli	82.3
Produce	31.2
Eggs	85.1
Frozen	
Frozen Food	69.0
Ice Cream	87.3
Ice	94.4
Room Temp.	
Bread & Cakes	92.8
Cookies	94.2
Salty Snacks (Chips, Nuts, etc.)	95.8
Candy & Gum	96.0
Groceries	88.5
Health & Beauty Aids	92.0
Tobacco	98.8
Publications	78.9
Wine/Liquor	45.3
Automotive/Motor Oil	96.2
General Merchandise	92.4
Fast Food	
Sandwiches—Fresh	67.0
Sandwiches—Frozen	54.9
Deli Services (excluding sandwiches)	31.4
Food Cooked On-site	28.8
Fountain Drinks	80.1
Frozen Beverages	46.1
Hot Beverages	89.7
Other Fast Food	29.4
On-Site Prepared Foods	
Service Deli	27.0
On-premise Bakery	7.0
Fried Chicken	15.0
Pizza	11.0

Thank You

. . .for providing us with the opportunity to be of service to you through the NACS 1988 **State of the Convenience Store Industry Report**. We hope the contents of this report have met your satisfaction, but the only way we can find out is through your assistance.

To enable us to continue providing the quality service you desire, would you kindly take a moment to complete and mail this postage paid form? We will use your comments to improve the **State of the Convenience Store Industry Report**.

- Can you offer any suggestions to help us improve the **State of the Convenience Store Industry Report**?

_____

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- Is there any information NOT included in this report which you feel should be included?

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